

## **Report on BBPOS deal, IP, position, recommendations By Will Graylin, 7-5-12**

I spent a lot of time with Ben in HK the past few days to understand where the company is, where the patents are, and where his mind set is, while trying to convince him of our position to reach an agreement that would benefit all parties. I focused on desired results rather than position. This report is intended for the ROAM board to share my findings and my recommendations.

In summary, I think ROAM and Ingenico should conclude a deal with BBPOS under the terms described below as quickly as possible because of the following reasons:

- 1) Acquire IP position, BBPOS has now filed multiple patents on audio readers, with granted and pending patent rights we can be in a strong position to tell customers and partners about our strong IP portfolio which helps their decision making process when competing with Verifone, ID Tech, Magtek and many clones in the market.
- 2) Acquire talent to keep innovating in the mCommerce space, BBPOS has the foremost experts in the world when it comes to mobile phones and interface via the audio jack. Their team can be very helpful to ROAM and Ingenico going forward.
- 3) Improve margin per unit going forward. We expect to ship nearly 2 million units this year, next year, can be as much as 3 million or 4 million, at \$1.25 per unit on royalties and margin, that quickly adds up to more than double what we pay them in a few years.
- 4) Even with China being non-exclusive, we can leverage any work done by BBPOS for China market, certification with CUP or PBOC, for Ingenico and ROAM sales inside of China. No real harm here.
- 5) We keep relationship with inventors and team positive and avoid downside of Inventors being pushed by HATM or anyone else to join them – note HATM now has two granted patents by the inventors and has nothing to lose by offering them more royalties and shares if they jointly go pursue Square and others for large money.

Below are more detailed analysis to view the deal from different

standpoints.

- 1) From an IP and Technology standpoint that we would acquire:
  - a) I reviewed in detail the history of the IP with Ben and got him to document the IP trial and how the different event took place and examined related documents including contracts to establish what patents he owned, assigned, filling to determine the value for us and implications. (See attached History document.)
  - b) The good news is we believe that ROAM has a proper license with BBPOS signed in May of 2010, before the assignment date to HATM by Ben and Jimmy, this would include the granted patents in HATM name because the assignment date was not until later.
  - c) Ben and Jimmy are clearly the inventors of the audio jack technology and now multiple patents including two that were granted last month to HATM from the original IP filed Feb 2009.
  - d) Because the first patents filed by Ben and Jimmy has been issued by the USPTO, and they have filed several patents since, This license to granted patents and portfolio of pending patents that can be obtained by ROAM can be a very valuable tool to win more sales. Thus the value of BBPOS both in the inventors' minds is worth more than before.
  - e) They have the real technology prowess that resulted in the world's leading audio jack reader today, and are continuing to add innovations and patents on their own to make the solution better.
  - f) HATM has been courting Ben and Jimmy to side with them, saying they have rich investors, and will leverage the ownership of the HATM patents, now issued, to pursue infringers for \$2 to \$3 per unit world wide. Their argument to Ben and Jimmy is that joining HATM would make them richer than selling to ROAM. They want the original inventors' help to pursue infringement suits and provide ongoing technologies and want their other IP to make their current patents stronger.
  - g) Ben and Jimmy are filling at least 3 more patents related to new inventions important to our products and those competing with us in the future. There is no question that we want to have these guys as part of our team to strengthen the value of our company and our IP position.
- 2) From a ROAM BBPOS contract standpoint we need to update it:

- i) I went over with him our position and he sited his. There can be several areas of contention that would likely need to be resolved in court, if we cannot reach an agreement ourselves.
  - b) Based on the last amendment that we signed Nov 2011, we reduced their margin to \$2/unit from \$3/unit for exclusively distributing products they supply us. They feel that this margin we pay them includes the royalties we pay for their IP, which was the intension discussed with them early on but not specified clearly in the contract.
  - c) A few months ago I got Ben to agree to reducing their margin/royalty further down to \$1.25/unit, but we have not yet amended the contract to reflect the new price since we thought we would be closing the deal soon and the term sheet was signed to close, (so technically they could argue that we still owe them \$2/unit until we amend the contract or close the deal), which we will need to do one or the other soon.
  - d) The contract talked about margin per unit but did not directly talk about the price including royalties, they felt that the price does include royalties. They feel that if we don't buy the finished products from them then we must pay royalties for units sold. Otherwise they can seek to terminate the agreement for breach and fight it out in court, which can cause IP to be fought over not only with them, but if our BBPOS contract gets terminated, we can be exposed to HATM patent suit or royalties.
  - e) Further, they feel they have been developing the NFC and EMV readers as well as a new PIN entry device technology at their own cost. Ben stated all the engineers development we paid for were specifically for ROAMpay API, ROAMplayer, and other software that we own but their hardware team worked on new products without our commission and on their own investments, and are not part of the original products we licensed, so if we were to stop paying them royalties for units, and fight them, then we may not get access to those product rights. I did not want to go down that rat hole, but I noted the position his counsel can take if we start fighting.
- 3) From a people and technology roadmap standpoint:
- a) As I have seen in the past 2.5 years Ben and his team is very capable and can continue to innovate and deliver. They delivered 3 generations of reader with over a dozen different branding and keys,

and another whole different form factor for PayPal that was crucial in us winning that account.

- b) Despite Christopher Rotsaert not getting his requests on documentation for the EMV reader roadmap, last week I have seen the progress BBPOS made and we are much closer to an EMV reader than Christopher realize. I am now convinced based on the technical complexities of the EMV reader, that it would be very difficult for Ingenico Valance team to build an EMV audio reader that is fully production ready with all the libraries and APIs on their own. It requires a different skill set, and would be like asking very good team of professional basketball players to compete in a soccer tournament against professional soccer players. They are athletes and can eventually figure things out but it is not their core competence. Ben's team has years of experience and IP that I believe will be crucial in delivering us a working solution late this year. There has been a lot of distractions so far for Ben from focusing on this reader, but I have confidence in Ben's ability to succeed for this reader and the needed APIs for the market. There will be more innovation required and I think it is important to keep this team motivated to deliver going forward.

4) Ben's mind set and desired results:

- a) He appreciates our position and what we have done for them, and is ready to sell us the assets and patents he own for the whole world except for China under the same terms previously discussed on the term sheet, and join the ROAM team, and keep innovating to build his stock value for selling the ROW rights. He does not want to sell his China rights right now. He respects my opinions but I can strong-arm him into it via arguments and threats.
- b) The key for ROAM is obtaining the IP and technology that can give us an edge against competitors in countries where IP matters the most, and obtaining the team that keeps innovating. In China, he is willing give us the rights and technology for \$1/unit including IP which is less than what he is getting from LakaLa right now. This is a pretty good deal in my mind if we can sell products they make for China ourselves with \$1 per unit royalties, while the rest of the world is totally ours.
- c) Even in our current agreement we are willing to give him 50% of all margin for hardware deals he brought, and 25% of any service deals

he brought. Which for a \$10/unit at \$5/unit margin, we would be paying BBPOS \$2.50 per unit.

- 5) What are our desired end goals? Build value for all shareholder of ROAM including Ingenico as biggest shareholder. How?
  - i) By having a great team that can keep innovating and delivering to customers so we can win in the market with differentiated products and be responsive enough to win in timely manner.
  - ii) Control as much IP as we can to differentiate in the market and sell more products and maximize margin. The ability to tell the world we have the inventors of the technology and a portfolio of patents they invented behind us, and they should not buy from competitors that infringe and has inferior products.
  - iii) Ability to litigate against infringers and prosecute more patents from the portfolio being filed or will be filed by the inventors. One big account like Intuit can mean \$10M plus per year in revenue and \$5M in margin. Well worth it to the company and shareholders to make this deal happen.
- 6) What are the risks for fighting with BBPOS?
  - i) Failing to deliver to key customers like PayPal and others.
  - ii) Failing to innovate and deliver new reader solutions to market.
  - iii) Getting into protracted litigation over IP and risk losing the existing license, exclusive or otherwise.
  - iv) Risking BBPOS support of HATM IP positions and putting ROAM in disadvantage with our IP story to customers.
- 7) Recommendation on deal:
  - i) After reviewing all the facts on BBPOS IP including new patent apps, and HATM's granted patents, and potential position of the portfolio, that combined with their recent China deals - I believe the value of BBPOS has gone up, particularly when the market sees the granted patents and the potential of at least sharing that patent along with the other patent apps in the pipeline, and certainly because of the Lakala and Alibaba deals in China, they understandably see that value to be carved out.
  - ii) I recommend we buy all assets and IP rights of BBPOS excluding China before he changes his mind, and we integrate the team, per previous deal structure.
  - iii) We make all BBPOS employees our own employees under new

structure, the put in our own appointed Finance Head to monitor and do project base accounting for any resources spent on China efforts that are on our team, we charge it to BBPOS, they are willing to pay for those.

- iv) We let BBPOS keep their China deals, and can source or license BBPOS for China if we use their technology at \$1/unit which is better than our current deal and can leverage all development for that market including any certification with Chinese authorities and any products specifically for China.
- v) Since we are giving him about 2% in stock options of ROAM, we can ask for reciprocal amount of warrants from BBPOS.
- vi) We cannot force a deal and don't want to threaten them as it will only create ill-will that can destroy value, thus our best approach is to show good will, and close this deal ASAP.
- vii) Our goal is to create more value for ROAM and Ingenico shareholders which I firmly believe my recommendations are meant to achieve that. Owning the IP even if for ROW, and non exclusive for China does not diminish our value and positions us well into the future of this market. Having a portfolio of patents with the inventors and a team of engineers who are experts in this space is key to growing our value in ROAM. Thank you for considering these recommendations for the board.